AN ECONOMIC PROGRAM FOR THE AMERICAS

Report of the International Development Advisory Board

***Washington,
September, 1954***

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The Honorable
Harold E. Stassen
Director, Foreign Operations Administration
Washington 25, D. C.

My dear Mr. Stassen:

I have the honor to transmit the attached report, An Economic Program for the Americas, which was adopted by the International Development Advisory Board at its meeting in Washington on September 20, 1954.

The recommendations contained in this report are calculated primarily to give new impetus and cohesion to our own efforts toward greater inter-American economic unity. The Board recognizes that much is already being done, and, in the main, done well. As the recommendations contained in its report will indicate, however, it feels that activities in this immensely important field of foreign policy and programming are perhaps too diffuse at the present time to achieve maximum effectiveness. The basic intent of its recommendations therefore is to accomplish a somewhat greater degree of coordination in these activities than now exists.

The report was prepared for the Board by one of its own members, Mr. J. Peter Grace, Jr., whose long and intimate experience in inter-American industrial and cultural cooperation provided a fortunate and particularly valuable understanding of the problems which exist in this area of our foreign relations. The Board wishes to acknowledge with sincere thanks the time and the effort which Mr. Grace has devoted to a signal and significant public service.

The Board trusts that its suggestions will lend themselves to your favorable consideration and early implementation.

Sincerely yours,

Eric Johnston, Chairman

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FOREWORD

This report and the recommendations it contains were adopted by the International Development Advisory Board at its meeting in Washington, September 20, 1954. It is presented as a coordinated inter-American economic program capable of being promptly implemented.

In this report we propose to show:

1. The vital importance to the United States both at the present time and for the future of a prosperous, productive and friendly Latin America.
2. The pressing need for growth in inter-American trade and in the flow of United States private capital to Latin America and the factors which have been impeding that growth.
3. Concrete measures which will fill that need.

The tremendous importance of Latin America has never been more evident than it is today. The national leaders who have visited Latin America in the past year are unanimous in their emphasis on the need for a clearly defined and dynamic United States policy.

This is a time, with fear and uncertainty ruling much of Europe and Asia, for clear thinking and decisive action in the Americas. There is no longer any doubt that the forces of international Communism are at work in Latin America. They are now busy making "investment climates" as unfavorable as possible. The longer the United States waits for investment climates to become *more* favorable, the more time Communists will have to make them *less* favorable. Hence, prompt positive action on our part is essential. We must now take the lead, with courage and imagination, or forfeit our opportunity to frustrate Communist penetration of the Western Hemisphere.

Fortunately, much magnificent work already has been done, and is being done, in strengthening the bonds of the hemisphere. Many United States citizens, by cultural interchange and by private investment in Latin American industry, commerce and transportation, have already built strong foundations for mutual progress and understanding. Our Government and the international agencies in which we participate are at work in the field—The Pan American Union, the Organization of American States, the Export-Import Bank and the Foreign Operations Administration. So also are the International Bank for Reconstruction and Development, the International Monetary Fund and the United Nations. But there is more work to be done.

Latin America is blessed with great natural resources and its rate of population growth is the highest in the world. Its people aspire to a better standard of living. They have in common with us the heritage of the dignity of the individual and of the Christian philosophy.

Nevertheless, the Americas could fall victim to the Communist threat if a sound, long-range plan for economic progress is not soon put into effect.

It is to the task of eliminating the conditions which breed this danger that all of us must dedicate ourselves, and this report is meant to be a contribution on the economic level. Quite apart from the moral and spiritual values involved and the overwhelming military importance of Latin America, its economic significance to us is enormous. For instance:

1. It is the largest market for our exports and the largest source of our imports.
2. It is an indispensable and irreplaceable source of our most vital raw materials, not only critical minerals for war and defense but foodstuffs as well.
3. It is the home of our greatest amount of foreign direct private investment.

Why then is capital flow to that area diminishing? Why is trade not continuing its steady growth? What measures are needed to cure the situation?

This report presents specific proposals which do not involve gigantic sums such as those we have expended to shore up the defenses against Communism in Europe and Asia. They do not call for "hand-outs", or envision economic or political "colonialism". They do seek to promote our mutual trade and to put private investment upon a footing as attractive as other fields which compete for today's investment dollar. They call for a coordinated, affirmative approach to the problem based upon the belief that "good neighbors" will be better neighbors if they are also "good partners".

In furtherance of this principle, we have proposed the program which is presented as Chapter IV of this report. It is designed to stimulate the flow of private capital to the Latin American area and to coordinate the use of public funds. It is designed to give encouragement to a healthy and

growing reciprocal trade among the Americas. It is designed to raise the standard of living and the productivity of the Latin American people and to assist in the channeling of their savings into productive enterprises. It is designed to assist the Latin Americans in the tapping of their great natural resources through financial cooperation and through technical assistance, and by all these means to demonstrate with visible deeds the worth of the free enterprise system to the Latin American people.

Washington,
September, 1954

I–SIGNIFICANCE OF LATIN AMERICA TO THE UNITED STATES

In April, 1953, the President of the United States expressed "to the governments and peoples of Latin America the sincere conviction of the United States that sound economic, military, political, and cultural relationships between our countries are necessary to our common future," and charged the Special Ambassador to the countries of Latin America, Dr. Milton S. Eisenhower, "to consider what, if any, changes might be desirable in United States policies and programs in order to contribute to the meaningful unity we all desire." Dr. Eisenhower's Report, made on November 18, 1953, presents a thorough-going and brilliant analysis of United States-Latin American relations in all its aspects.

Our report suggests a program to carry out the recommendations of the Eisenhower Report in the economic field.

The Urgent Need for Action

The Eisenhower Report said:

"A tremendous social ferment exists today throughout Latin America. Leaders of the nations to the South, recognizing that too many of their people are desperately poor, that widespread illiteracy is a handicap to progress, that educational and health facilities are woefully inadequate, and that improvement calls for capital for machinery, tools, highways, schools, hospitals, and other facilities, look to the United States for help. They acknowledge that no other part of the world is now developing as rapidly as theirs: that their construction of building, roads, power dams, and factories must amaze even the most sophisticated observer. But these achievements are, in discussion at least, made to seem unimportant. They want greater production and higher standards of living, and they want them *now*. The key to both industrial and agricultural improvement, they feel, is capital, capital in great volume."

The Eisenhower Report pointed out that the need for foreign capital is frustrated by ultra-nationalism fostered by Communist agitators.

The State Department "White Paper" on Guatemala clearly describes the acutely serious threat of Communism in Latin America:

"The situation in Guatemala is clearly the product of a bold and sustained attempt to establish a communist controlled state in the Western Hemisphere."

* * * * *

"The significance of particular communist movements and maneuvers in the Western Hemisphere cannot be understood except in terms of the world-wide conspiracy which they represent and of which they form a part."

The Mission of the House Foreign Affairs Committee which visited most Latin American countries last year to study technical cooperation programs repored that Communist

". . . agents are working around the clock to insure not only the frustration of United States efforts in the field of technical cooperation, but the discrediting of all United States aims, no matter how worthy or essential. Their major efforts are directed to preventing the influx of capital investment from abroad which might be expected to increase production, stimulate commerce and generally bring to Latin America the economic benefits and advantages which have become a part of life in the United States and Canada."

We know that Communism feeds on hunger and in today's world the prime concern of most human beings is unfortunately economic rather than spiritual. If we are to demonstrate the worth of the free enterprise system to the Latin American, we must prove that our system will raise his standard of living to a level closer to that enjoyed by his "opposite number" in the United States. We must begin *now* and our efforts must be visible to the very many instead of the very few.

Strategic Consideration

The United States Senate Committee on Interior and Insular Affairs, after ten months of hearings, recently reported:

"The Western Hemisphere can be defended and will be the only dependable source to the United States of critical raw materials in the event of an all-out war."

* * * * *

"The expanded range of airpower makes clear the danger of chaining our war machine exclusively to sources of strategic and critical materials located in the Eastern Hemisphere, in Europe, Africa, or Asia; and makes it mandatory that "going-concern" production sources be developed in South America, in the Western Hemisphere, our own backyard, which is not only beyond the reach of the potential enemies' airpower but also whose coastal sealanes, comparatively close to land bases, can be effectively shielded by United States air strength together

with guided missiles, sub hunter, and killer teams."

A further factor in the strategic importance of Latin America lies in its very proximity to the United States. The Guatemalan "White Paper" issued by the State Department touched on this vital point as follows:

"Within the framework of the long-range Soviet conspiracy to penetrate and disrupt the Western Hemisphere, the Central American Republic of Guatemala seems to have been viewed for some time by the leaders of Soviet imperialism as a suitable place to work towards establishing a base on this Continent. The country was small, strategically located, and was going through a period of political transition which might be exploited."

During World War II, Latin America supplied 75% of the crude foodstuffs and 40% of the raw materials and semi-manufactured goods which our country imported. Latin America is today a principal supplier of critical raw materials to the United States, providing the following percentages of United States imports of critical items:

Quebracho	100%
Asbestos (Crocidolite)	100%
Quartz crystals	98%
Bauxite	65%
Antimony	62%
Beryl	46%
Sisal	43%
Cadmium	37%
Copper	29%
Fluorspar	25%
Manganese	23%
Vanadium	20%
Tin	18%
Tungsten	17%

SOURCE: Office of Research, Statistics and Reports, F.O.A.

Approximately thirty of the seventy-seven items on the United States stockpile list of strategic materials are imported from the area. In addition, we receive from Latin America a substantial portion of our imports of two basic raw materials, iron ore and petroleum, for which no stockpile as such has been established. For certain other metals, such as copper, the depletion of our own resources, plus the fact that the largest reserves in the free world are in Latin America, point to increased dependence on the area with the passage of time.

Inter-American Trade

Latin America is our largest customer and our largest supplier. In 1953, it accounted for 34% of our imports (Europe 22%) and 27% of our commercial exports (Europe 25%). We supplied 50% of Latin America's imports, and 48% of Latin America's exports were consigned to us. As a consumer of United States exports and provider of United States imports, Latin America is more important than Europe, and about twice as important as Asia.

An analysis of our leading exports shows that 27% of our exports of industrial machinery, 33% of our exports of electrical machinery, 52% of our exports of motor busses and trucks, 43% of our exports of automobiles, 35% of our exports of chemicals and related products, and and 47% of our exports of fats, milk, meat and other animal products, all went to Latin America. These statistics indicate the tremendous benefits that would accrue to United States industry from increased purchasing power in Latin America.

Trade between Latin America and the United States has shown tremendous gains since the prewar period. Since 1938, United States imports from Latin America have risen from $485 million to $3.7 billion, or 7.5 times. In the same period our exports to Latin America have increased from $564 million to $3.1 billion, or 5.5 times.

The fact that Latin America is our most important trading partner means that our trade with that area affects almost every segment of the United States economy. The following survey of United States trade with Venezuela in 1952 vividly brings out this point:

UNITED STATES EXPORTS TO VENEZUELA IN 1952

What Venezuela Bought	*How Many Millions*	*From How Many States*
Machinery	$ 142	26
Automobiles & Trucks	60	5
Foodstuffs	45	24
Textiles	38	19
Chemicals	36	11
Dairy products	23	15
Wood and Paper Products	19	31
Minerals	14	17
Other	123	—
Total	$ 500	40

SOURCE: Study of Latin American Countries, Interim Report of the Senate Committee on Banking and Currency, dated March 16, 1954.

Enlightened United States citizens realize the importance not only to the nation, but also to their own locality of our exports. In 1952, United States exports (including aid shipments) represented 5.2% of United States national income; Venezuela's exports represented 53% of its national income. In general, Latin America's exports to us are equivalent to about 8% of their national income and represent about 50% of their total exports. In considering our trade policy, therefore, we must never lose sight of the fact that any changes therein can have profound effects on the economies of our Latin American neighbors.

United States Investment in Latin America

United States direct private investment in Latin America is larger than its direct private investment in Europe, Canada, or any other area in the world. At the end of 1953, of the United States total foreign direct private investment of about $16 billion, $6 billion was invested in Latin America. From the standpoint of the Latin American, the importance of this investment is greater than the dollar amount it reflects, because the investment brings with it American management and technical know-how.

UNITED STATES DIRECT PRIVATE INVESTMENT ABROAD BY AREAS—1953

	Amount in billions	*Percent of Total*
Latin America	$ 6.0	37%
Canada	5.1	32%
Western Europe	2.3	14%
Other Areas	2.8	17%
TOTAL	$16.2	100%

SOURCE: U. S. Department of Commerce.

United States earnings from direct private investment in Latin America amounted to about $900 million during 1953. Income receipts in 1953 amounted to about $608 million, since significant portions of earnings were reinvested.

The Latin American population is growing at the phenomenal rate of 2½% per year. If this dynamic expansion continues, it means that by 1975, their population will be one-third greater than that of the United States, and in less than fifty years will be twice that of the United States and Canada put together. When it is remembered that we are now furnishing about 50% of Latin America's imports, it is not necessary to spell out the importance of this growth.

In summary, Latin America is our largest customer, supplier and field of foreign investment, an area of phenomenal growth, and an indispensable and irreplaceable ally. Latin America lies within the inner fortress; no error of omission or commission is permitted to us.

II—LATIN AMERICA'S NEED: CAPITAL—PUBLIC AND PRIVATE

National Variations

Too often the mistake is made of assuming that Latin American countries are all alike, that the problems of one are the problems of the others and that, therefore, a single formula can be devised to achieve United States foreign economic policy objectives in this area. On the contrary, there are wide variances among the geographic, cultural and economic aspects of each country.

In Costa Rica the land area is 78% forest and woodlands compared to only 2% in Uruguay. In Bolivia population density is 7 persons per square mile compared to 283 in Haiti. In Uruguay, the daily circulation of newspapers provides 250 copies for every 1,000 persons compared to only 20 in Guatemala. Argentina has 47 telephones for each 1,000 persons; Ecuador only 3. In the Dominican Republic, 76.2% of the population is rural whereas in Argentina only 37.5% is rural.

Per capita national income in Venezuela is $426; in Paraguay it is only $50. In Panama there are 12.2 cars for every 1,000 people, compared to only 1.2 in Bolivia. Uruguay has 6.8 tractors for every 405 acres of arable land, while Chile has only 1. The astonishing dissimilarities of important economic and cultural statistics are shown in the table on the following page.

Common Problems

Notwithstanding these variations, the nations of Latin America do have the common goals of international peace, freedom, independence, rising levels of economic well-being, and in ever increasing measure the advancement of democratic processes. Furthermore, practically all Latin American countries do have these common characteristics:

> They are on the whole under-developed, both agriculturally and industrially, with relatively low per capita national incomes.
>
> The economies of practically all are highly dependent upon one or a few commodities.
>
> Very few can generate enough local savings to meet their capital requirements, despite the fact that the average rate of savings is high.

The Present Stage of Latin American Development

An idea of the development potential of Latin America can be gained from the fact that with over 2½ times the geographical area of the United States and a population almost 5% greater, it has only 7.3% of the all-weather roads, 3.8% of the motor vehicles and 8.2% of the installed electric power capacity of this country.

A good yardstick of national development is the per capita consumption of energy. The following table shows the striking effect of mechanization and is the clearest demonstration we have found of Latin America's underdeveloped economic position:

ENERGY CONSUMPTION AND NATIONAL INCOME

Area	*Consumption of Energy per capita—1950 (in metric tons) of coal equivalent) (1)*	*National Income per capita—1950 (in dollars)(2)*
United States	7.51	$1,583
Canada	6.47	1,040
Australia & New Zealand	2.86	844
Europe (excl. USSR)	1.99	392
Latin America	.41	233
Asia	.14	48

SOURCE: (1) The Economic Almanac, 1953/54, National Industrial Conference Board.
(2) Estimated on basis of United Nations data.

POTENTIALITIES FOR DEVELOPMENT OF LATIN AMERICAN REPUBLICS AS COMPARED WITH THE UNITED STATES

	Latin America	*United States*
Population	166 million	160 million
Geographical Area (square miles)	7.9 million	3 million
Roads—		
All Weather	146,000 miles	1,999,000 miles
Total	484,000 miles	3,326,500 miles
Electric Power (Installed Capacity)	7.9 million kw	96.7 million kw
Infant Mortality Rate	98 per thousand	28.5 per thousand
Literacy Rate		
Percent of Adult Population	55%	96%

SOURCE: Office of Research, Statistics and Reports, F.O.A.

AGRICULTURE

Latin America is primarily a farming area. Three-fifths of its workers are engaged in agricultural production, yet overall it does not produce enough to provide its people with an adequate diet. According to recent statistics, even with substantial food imports, the average daily caloric intake of Latin Americans is only 2,410 calories as against 3,130 in the United States.

In Latin America, almost four times as many workers are engaged in agriculture (about 34 million) as in the United States (about 9 million).

LATIN AMERICA AND THE UNITED STATES ECONOMIC, DEMOGRAPHIC AND CULTURAL STATISTICS

Country	National Income (1)			Population			1953 Cost of Living Indexes (4) (1948=100)	All Weather Highway Mileage (5)	Electricity Production (5) (Millions of Kilowatt Hours)	Installed Electrical Power Capacity (5) (Thousand KW)	Primary School Pupils as % of Total Population (6)	Daily Newspapers (6) (Copies per Thousand Persons) 1952
	Total (Million Dollars)	Per Capita (Dollars)	Latest Year Available	Total 1953 (2) (Thousands of Persons)	Rural Population as % of Total (3)	Latest Year Available						
1. Venezuela	$ 2,158	$ 426	1951	5,440	50.2%	1953	99	5,780	720	300	10.0%	66
2. Cuba	1,971	357	1951	5,927	50.4	1951	91	2,158	815	193	17.5	67
3. Panama	288	330	1952	864	64.1	1953	95	1,025	175	33	12.2	111
4. Argentina	5,214	292	1951	18,379	37.5	1952	324	19,800	5,500	1,830	11.7	100
5. Uruguay	664	282	1949	2,525	35.0	1949	140	6,320	753	235	11.1	250
6. Chile	1,617	275	1952	6,077	47.6	1952	256	12,000	1,880	738	12.2	77
7. Colombia	2,857	257	1950	12,033	70.9	1953	147	900	1,200	400	6.7	59
8. Mexico	4,857	183	1951	28,053	64.9	1953	151	30,000	5,335	1,600	9.5	50
9. Costa Rica	145	181	1949	881	64.2	1952	122	1,000	173	46	16.1	90
10. Dominican Republic	381	170	1952	2,291	76.2	1952	104	1,460	112	34	11.3	25
11. El Salvador	338	165	1950	2,054	63.5	1953	149	1,200	71	19	7.7	33
12. Guatemala	488	162	1952	3,048	68.4	1951	124	6,770	85	20	5.7	20
13. Brazil	8,286	148	1952	55,772	63.5	1953	162	44,700	8,758	2,078	9.1	100
14. Nicaragua	132	560	1950	1,139	65.4	1951	155	820	27	n.a.	7.6	50
15. Honduras	179	119	1951	1,557	69.0	1952	120	768	50	11	7.6	20
16. Peru	956	110	1951	9,035	64.6	1953	165	8,000	314	294	11.2	40
17. Bolivia	305	101	1950	3,124	66.4	1952	624	620	175	36	5.9	25
18. Ecuador	300	88	1950	3,439	69.7	1952	112	1,450	118	44	10.3	50
19. Haiti	173	55	1950	3,340	87.5	1952	n.a.	720	18	10	4.2	3
20. Paraguay	74	50	1952	1,504	64.1	1952	687	460	50	15	13.0	12
Total Latin America				116,482				145,951	26,329	7,936		
United States (7)	$305,002	$1,910	1953	159,629	36.0	1950	111	1,998,669	463,056	96,677	14.1	353

(1) Based on estimates of the International Bank for Reconstruction and Development.

(2) Source: Monthly Bulletin of Statistics, United Nations. Figures for Nicaragua, Bolivia, Haiti and Paraguay are estimates based in inter-censal rate of population increase.

(3) Based on estimates of the International Bank for Reconstruction and Development.

(4) Source: International Financial Statistics, International Monetary Fund.

(5) Source: Comparative Statistics on Latin American Republics, United States Department of Commerce.

(6) Based on estimates of the International Bank for Reconstruction and Development.

(7) Source of data for United States same as that for Latin American countries except as follows:

National Income—United States Department of Commerce.
Rural Population—United States Bureau of The Census.
Electricity Production and Capacity and Highway Mileage—
Mutual Security Act, 1954, Hearings Before The Committee on Foreign Relations, United States Senate, 83rd Congress, 2nd Session.
School and Newspaper Data—Monthly Bulletin of Statistics, United Nations.

On the other hand, the gross agricultural product in Latin America is only about one-half that of the United States. On this basis, the productivity of the Latin American agricultural worker is substantially less than that of his United States counterpart. This obviously is because the latter has the benefit of greater mechanization, and on the average employs more advanced methods. While Latin America has increased its agricultural output by 32% since the pre-war period, its population has grown 38% during the same period, a trend which must be met by more mechanized farming and the improvement of farming techniques.

Transportation

Development of transportation facilites of all kinds is a critical need of most Latin American countries as indicated by the lack of roads shown in the preceding table. With a population larger than the United States, Latin America has only 7.3% as many miles of all-weather roads.

For example, in Bolivia where there is a need for increased food production, efforts at diversification of the Bolivian economy have stressed new roads to open the land of the Santa Cruz and other regions where increased agricultural production is economically feasible. Improved transportation is particularly needed in Central America. The Inter-American Highway, the Central American portion of which is today 90% complete, will furnish an all-weather road from Panama to the United States. Completed sections are already generating trade. To use the Highway to best advantage, however, the countries through which it passes must develop an extensive system of feeder routes which will require substantial investments. Similar needs and opportunities exist throughout Latin America.

Power and Fuel

The most serious impediment to the well balanced economic development of Latin America is the shortage of power and fuels. The demand for power in an expanding economy is almost insatiable. In spite of the very rapid progress being made in the installation of new power facilities, there are power shortages and potential shortages in practically every country of the area. A major cause of such shortages, in the case of privately owned utilities, can be found in the uneconomic rates imposed by some governments.

In addition to electrical power, there is in most countries a shortage of fuel. For example, present estimates are that Brazil has adequate oil resources to satisfy domestic requirements, but at present Brazil's production is developed only to the point where 2,500 barrels per day are produced as against a 135,000 barrel requirement. In 1954 it is estimated that Brazil will have to spend about $275 million to import petroleum products. It is estimated that the Brazilians' total hard currency exchange budget for 1954 will be in the neighborhood of $910 million. Consequently, Brazil will have to use about 30% of its available hard currency exchange in 1954 for the purchase of petroleum products. Brazil's oil situation, in the light of her foreign exchange requirements, is a challenge to economic statesmanship. We have no doubt that the skill and wisdom demonstrated by the negotiators of the recent Iranian oil consortium can be matched when the Brazilian problem is approached in as positive and imaginative a manner.

Industry

A rough approximation of the industrial status of Latin Ameria may be gleaned from the fact that there are only about half as many workers employed in industry in Latin America as there are in the United States, despite the approximately equal total population of the two areas.

Gross industrial and building product of Latin America is equal in value to less than 1/10th that of the United States.

Thus it appears that the industrial worker in Latin America, despite his quick intelligence and eagerness to learn, is producing substantially less than the amount produced by an industrial worker in the United States. Here again, as in the case of agriculture, capital investment and improved techniques are required to raise the production efficiency of Latin American industry.

The Importance of Balance in Development

It is important to stress that industrialization cannot be pushed at the expense of agricultural development. Favoring industry over agriculture will only aggravate the present situation in Latin America where food production is falling behind the needs of a rapidly increasing population. In a country possessing adequate capital and resources, unwise development is serious enough; in a country which is short of capital and other resources, it can have disastrous consequences by worsening rather than bettering the balance of payment situation. Development programs must be carefully conceived, well balanced, and carried forward at an economic pace. Along with agriculture and industry, transportation, power and housing facilities obviously must also be expanded.

The Importance of Stability in Development

Basic changes in fiscal policies of governments will be required in many cases if real economic development is to be achieved. In order to stimulate increased output it will be necessary to restore the incentives that can flow from the

price mechanism. Through inflation, price controls, and subsidy exchange rates, certain governments have discouraged increased domestic agricultural output. Price ceilings imposed as an emergency attempt to control inflation have discouraged increased productivity while favorable exchange rates for food imports have made it impossible for local farmers to compete. Such policies, as the Eisenhower Report points out, tend "to vitiate, temporarily at least, the positive benefits of United States technical cooperation in agricultural experimentation and demonstration, and work against the usefulness of loans which have been extended for agricultural machinery, irrigation, and related purposes."

Lack of Economic Diversification

The crucial dependence of most Latin American countries on export markets for only two or three commodities is strikingly seen in the following figures:

Country	*Commodities*	*Total Exports*	
Colombia (1953)	Coffee	83%	
	Petroleum	13	96%
Venezuela (1953)	Petroleum		94%
Guatemala (1953)	Coffee	77%	
	Bananas	14	91%
Cuba (1953)	Sugar	84%	
	Tobacco	5	89%
El Salvador (1952)	Coffee		88%
Dominican Republic (1953)	Sugar	43%	
	Coffee	24	
	Cacao	20	87%
Haiti (1953)	Coffee	66%	
	Sisal	13	
	Sugar	7	86%
Costa Rica (1953)	Bananas	42%	
	Coffee	44	86%
Bolivia (1953)	Tin	68%	
	Tungsten	11	
	Lead	6	85%
Ecuador (1953)	Bananas	45%	
	Coffee	21	
	Cacao	16	82%
Brazil (1953)	Coffee	68%	
	Cotton	7	
	Cacao	5	80%
Paraguay (1952	Cotton	34%	
	Quebracho	18	
	Timber	16	
	Hides	10	78%
Peru (1952)	Cotton	34%	
	Sugar	14	
	Lead	10	
	Petroleum	7	
	Copper	7	
	Zinc	6	78%
Honduras (1951)	Bananas	66%	
	Coffee	8	
	Silver	3	77%
Chile (1952)	Copper	63%	
	Nitrates	13	76%
Nicaragua (1953)	Coffee	47%	
	Cotton	19	
	Sesame	6	72%
Panama (1953	Bananas	55%	
	Abaca	7	
	Cacao	8	70%
Uruguay (1953)	Wool	47%	
	Beef	12	
	Hides	9	68%
Mexico (1953)	Cotton	24%	
	Lead	10	
	Coffee	12	
	Zinc	4	
	Copper	8	58%
Argentina (1952)	Wool	16%	
	Beef	15	
	Hides	9	
	Wheat and Corn	9	49%

SOURCE: International Financial Statistics, I.M.F.

The above figures undoubtedly would be shocking to the average United States resident accustomed to life in a relatively stable, well developed and diversified economy. To summarize only a few of the highlights, it can be seen that:

- 96% of Colombia's exports are coffee and petroleum.
- 94% of Venezuela's exports are one commodity: petroleum.
- 80% of Brazil's exports are coffee, cotton and cacao.
- 78% of Peru's exports are cotton, sugar, lead, petroleum, copper and zinc.
- 76% of Chile's exports are copper and nitrate.

Thus, nine commodities provide the 88 million people of these five countries with more than three-quarters of their export income.

The extent to which this export income is affected by commodity price fluctuations is obvious. For example: since 1951, the price of zinc has fallen by 49%, sugar by 42%, cotton by 35%, and lead by 27%.

Regardless of whether a given price level is justified or not, this unbalanced dependence upon a few commodities poses severe economic problems for our Latin American neighbors. We saw in the depression of the 1930's how important prosperity on our farms was for prosperity in our cities, but the farm problem in the United States is nothing like the commodity problem in Latin America. In the United States, farmers produce many different farm crops which comprise only about 6% of the value of United States production. Price drops in certain farm com-

modities, therefore, have serious economic repercussions only on a regional basis within the United States.

Consider, on the other hand, the problem which faces Brazil. Its hard currency exchange budget for the year 1954 has been estimated to be $910 million, of which some $580 million are estimated to be required for various fixed charges, essential imports of petroleum products, newsprint and the like, leaving only about $330 million available for free imports.

Brazil normally exports around 11 million bags of coffee annually to the United States. In the past few weeks, Brazilian coffee prices dropped about $22 a bag. On the basis of an annual volume of 11 million bags, such a decline would result in a reduction of $242 million in Brazil's anticipated dollar income over a one year period, which would be equivalent to more than two-thirds of Brazil's estimated hard currency exchange available for free imports.

Latin American countries rely on their export earnings to buy not only the capital goods needed for their development but also the essential foodstuffs and consumer goods required for everyday living. The vulnerability of their export earnings to downward movements in commodity prices makes it imperative for them to broaden their economies and thereby achieve greater stability.

Means of Advancement—Technical Assistance and Capital

To increase the standard of living of the Latin American, two inter-related steps are required:

One: Increase to the greatest extent possible the efficiency of existing means of production. This requires technical assistance in production methods, health and general education.

Two: Add to the capital already employed in the mechanical production of goods and services. This means investment of local savings plus capital from abroad, and, of course, is the major source from which any significant improvement must come.

Improvement in Terms of Trade

The standard of living of the Latin American countries could be raised by a relative improvement in their "terms of trade", i.e. the relative price level of their exports versus that of the machinery, foodstuffs and consumer goods which they import. An important part of the improvement in the standard of living in Latin America since World War II was the result of a marked upswing in the terms of trade between 1945 and 1950. According to United Nations data, this improvement corresponded to 10.7% of total gross product in 1950 and represents the extent to which Latin America profited by relative increases in raw material prices since 1945. Some of these gains have since been lost.

EFFECT OF CHANGES IN LATIN AMERICA'S TERMS OF TRADE SINCE 1945 ON GOODS AND SERVICES AVAILABLE

(in millions of dollars at 1950 prices)

	Output from Capital in Use	*Addition due to Improvement of Terms of Trade Since 1945*	*Gross Product (1)*	*% of Gross Product due to Terms of Trade*
1945	$27,390	$ —	$27,390	—
1946	28,976	1,879	30,855	6.1%
1947	30,962	2,637	33,599	7.8
1948	31,846	2,755	34,601	8.0
1949	33,256	2,406	35,662	6.7
1950	34,211	4,109	38,320	10.7
1951	36,087	4,187	40,274	10.4
1952	36,685	3,486	40,351	8.6
1953 (2)	37,457	4,120	41,577	9.9

(1) Total goods and services available before deducting net outflow due to balance of external payments.
(2) Provisional data.

SOURCE: Economic Survey of Latin America, 1951/52 and 1953, United Nations.

It would appear unrealistic to expect further gains for Latin America from future changes in the terms of trade. As a matter of fact, international price developments may well work against gains in the standard of living from this source during the next several years.

The major source upon which the Latin American countries must rely for a more rapid increase in their standard of living is additional invested capital. Such additional capital can come from increased local savings and from increased investment of foreign funds.

Local Savings

Neither is it realistic under present circumstances to expect material improvement in the standard of living in Latin America by an increase in the rate of local savings. In the short run an increase in the rate of savings, of course, would reduce the normal growth rate in the per capita standard of living. In the long run, it would help, but the average rate during 1946/1953 as a percentage of available goods and services already has been at relatively high levels, and in fact has been about 12% higher than for the same period in the United States, i.e., 16.1% in Latin America compared to 14.4% in the United States.

United States Government Assistance

From the end of World War II through the end of 1953, total United States net grants and credits under overseas aid programs amounted to $44.3 billion of which grants alone to Latin

American republics amounted to $346 million, equal to 1.0% of total United States grants of $33.2 billion. Net credits to these republics amounted to $691 million, or 6.2% of total net credits of $11.1 billion extended by the United States under its overseas foreign aid programs.

There have, of course, been good reasons for the relatively minor participation of Latin America, but the reasons have been difficult to understand, and in some cases misunderstood, by our Latin American friends. As pointed out in the Eisenhower Report:

> "In their current thinking they have minimized the fact that the tremendous volume of dollars made available to the free world by the United States tended to sustain directly and indirectly their export markets with Europe and other parts of the world. They have also seemingly minimized the fact that the high level of activity in the United States has resulted in recent years in dollar imports from Latin America which are at least six times pre-war levels, while our imports from Europe have risen to only three times pre-war levels. There has been, in other words, an entirely different situation in the older industrial areas which suffered from wartime destruction and consequent shortages and post-war scarcity of foods and raw materials, and where the problem has been one of restoring production. . . . Nevertheless, our assistance to other areas came precisely at the time that need for foreign capital was growing rapidly in Latin America, and loans to them, though substantial, did not fully satisfy their aspirations."

While recognizing the priority considerations which led to the extension of a major part of the post-war aid to date to areas other than Latin America, it seems to us that the situation now has changed in an important degree. The level of aid to Europe and other parts of the world, which in part contributed to the sustaining of Latin America's export markets, is being reduced. Although United States domestic policies are directed towards the maintenance of a high level of business activity, and hence indirectly towards the support of a high volume of imports from Latin America, it appears unlikely that further dynamic growth in the volume of such imports in excess of normal trends will occur. And it is the rate of *increase* in these factors, which is of vital importance in sparking the economic growth to which Latin America aspires.

The need for rehabilitation programs following the war in Europe, seems largely to have been met. Under these conditions, we feel the time has come for the United States to turn its attention more fully to the legitimate aspirations of many of the less developed countries within the free world, who wish to realize a relative improvement in their standards of living and who wish to maintain a high level of trade with the United States. The Latin American area appears to have logical priority in view both of its potentials and of its strategic, cultural and economic importance to and interrelationship with the United States.

This was recognized in the Report of the Senate Committee on Foreign Relations concerning the Mutual Security Act of 1954 (H.R. 9678), which stated:

> "It is a primary goal of the United States to further the development of the resources of our sister republics. One of the most effective means to combat the challenge of world communism in this hemisphere is to strengthen and encourage mutually profitable trade relations simultaneously with increased productivity and an elevation of living standards."

Within this objective, a soundly conceived and efficiently administered program of government loans certainly must have a part, especially in those fields which in today's capital markets are generally regarded as more suitable for public financing, either by reason of the magnitude of the sums required or the public character of the functions to be created. Such functions, for example, as irrigation and highway projects, themselves, promote a favorable investment climate by providing the basic conditions under which business can prosper.

Private Capital and Management Methods

The magnitude of Latin America's need for outside development capital, however, is such that government loans cannot fill, nor should they be expected to fill, but a part of the gap. To do the job on a permanent basis, a substantially increased flow of private investment capital is essential. This type of investment capital, provided it earns a satisfactory return, will remain in the country and stimulate other private capital to follow it. Furthermore, private capital generally brings with it management methods and technicians. These elements are all-important "invisible" contributors to private capital's role in economic progress.

Economic progress is not solely or even primarily a matter of material resources. Instead, it involves the ability to use those resources effectively. This requires the introduction of a wide variety of skills and attitudes. It requires not only technical skills such as engineering, but also business skills such as salesmanship, scheduling, controlling and planning. It requires training of skilled labor, development of a larger corps of

business leaders, and the establishment of modern financial institutions, as well as the application of sound fiscal policy by government.

In Mexico for example, after World War II, Sears, Roebuck and Co., being prevented from maintaining large import programs of United States manufactured items due to exchange shortages, developed an extensive local supply system by rendering financial and technical assistance to hundreds of local manufacturers and was thereby instrumental in accelerating the general industrial and commercial development of the country.

As stated in the Eisenhower Report, "If the energies of people (of Latin America) are properly joined with capital, with inventives for self-betterment, and with stable political and economic conditions, we shall witness an enormous agricultural, mineral, and industrial development in Latin America in the next twenty-five years."

III–THE FACTS ABOUT PRIVATE INVESTMENT IN LATIN AMERICA

Present Status and Trend

VALUE OF U. S. DIRECT PRIVATE INVESTMENT ABROAD
(in billions)

Area	*1947*	*1949*	*1951*	*1953*	*Increase 1953 Over 1947*
Latin America	$3.6	$ 4.6	$ 5.2	$ 6.0	66.7%
Canada	2.6	3.1	4.0	5.1	96.2%
Western Europe	1.2	1.5	2.0	2.3	91.7%
All Other	1.0	1.5	1.9	2.8	180.0%
Total	*$8.4*	*$10.7*	*$13.1*	*$16.2*	92.9%

SOURCE: U.S. Department of Commerce.

These gross figures are not unimpressive. However, the rate of flow of new United States dollar investment into private enterprise in Latin America during the last few years has contracted considerably. In addition, a substantial portion of these gross figures correspond to the undistributed or "reinvested" earnings of subsidiaries and foreign branches.

In the seven years ending 1953, the value of U. S. direct private investment in Latin America increased by $2,978 million. However, approximately $1,281 million of subsidiary earnings were reinvested. In addition, such limited and very rough estimates as are available indicate that about $915 million of foreign branch earnings also were reinvested, so that only about $782 mil-

CHANGES IN UNITED STATES DIRECT PRIVATE INVESTMENT ABROAD
(in millions)

	Net Increase in Value of U.S. Direct Private Investment Abroad	*From Which Deduct Reinvested Subsidiary Earnings (1)*	*Balance Remaining Equals Net Capital Outflow (Including Reinvested Branch Earnings)*	*Less Estimated Reinvested Branch Earnings (2)*	*Equals Estimated Actual U.S. Net New Capital Outflow*
Latin America					
1947	$ 580	$ 123	$ 457	$120	$337
1948	523	190	333	160	173
1949	442	110	332	120	212
1950	145	105	40	80	—40
1951	441	276	165	150	15
1952	582	305	277	155	122
1953	265	172	93	130	—37
Total	$2,978	$1,281	$1,697	$915	$782
Canada					
1947	$ 156	$ 117	$ 39	n.a.	n.a.
1948	279	192	87	n.a.	n.a.
1949	239	139	100	n.a.	n.a.
1950	433	146	287	n.a.	n.a.
1951	393	153	240	n.a.	n.a.
1952	621	201	420	n.a.	n.a.
1953	519	106	413	n.a.	n.a.
Total	$2,640	$1,054	$1,586	n.a.	n.a.
World Less Latin America					
1947	$ 559	$ 267	$ 292	n.a.	n.a.
1948	736	348	388	n.a.	n.a.
1949	633	305	328	n.a.	n.a.
1950	943	362	581	n.a.	n.a.
1951	860	498	362	n.a.	n.a.
1952	1,148	575	573	n.a.	n.a.
1953	1,123	494	629	n.a.	n.a.
Total	$6,002	$2,849	$3,153		

(1) Includes "other changes" (adjustments to the value of direct investment abroad caused by revaluation of foreign properties, transfer of assets from one country to another, adjustments for profit or loss on liquidations and other technical adjustments).

(2) Amounts for 1947, 1948 and 1949 represent roughly 40% of estimated branch profits; amount for 1953 not available at present to U. S. Department of Commerce and estimated independently.

SOURCE: U. S. Department of Commerce.

lion of net new *dollar* capital flowed to Latin America in this seven-year period. If the figures for new capital flow for the four years 1950/1953 are adjusted for estimated reinvested branch earnings the result shows that in this four year period the net new dollars flowing to Latin America from the United States averaged only $15 million a year.

Latin America has in the past attracted a relatively large share of foreign capital, and it could do so now if conditions were more favorable. Most of the countries are endowed with extraordinary natural resources; their population is increasing at a rate roughly 25% higher than the rapid population growth of the United States; danger of foreign aggression is remote. Yet, before adjusting for estimated reinvestment of foreign branch earnings, Canada with a population less than one-tenth of Latin America received in 1953 more than four times the amount of net dollar investments received by Latin America. The figures for recent years are:

NET CAPITAL OUTFLOW FROM U.S. DIRECT PRIVATE INVESTMENT

(Not adjusted for reinvestment of branch earnings)
(in millions)

	To Latin America	*To Canada*	*Percent of Investment in Latin America to Investment in Canada*
1947	$ 457	$ 39	1,172%
1948	333	87	383
1949	332	100	332
1950	40	287	14
1951	165	240	69
1952	277	420	66
1953	93	413	23
Total	$1,697	$1,586	107%

The $93 million of capital which was invested in Latin America in 1953, as shown above, equals less than one-fifth of one percent of the $51 billion of domestic private investment in the United States during 1953. This relatively ineffective amount is the end result to date of the trend of investment funds away from Latin America and toward Canada which began about 1950 as shown in the above table. Such decline in the rate of United States private investment in Latin America coincides with the change in the years following World War II when strong dollar positions and relatively stable currencies gave way in some countries to weak dollar positions and unstable currencies with restrictions on convertibility. These restrictions adversely affected new investments in Latin America, whereas Canada, with an increasingly stable currency and a strong dollar position, kept on growing.

Obstacles to Capital Flow

It is clear from the foregoing that artificial obstacles have been restricting the flow abroad of United States private capital, in particular, the flow to Latin America. As summed up by Secretary Dulles at Caracas, ". . . private capital cannot be driven. It has to be attracted."

Traditionally, private capital has been attracted and has tended to move from areas of low interest rates to areas of high interest rates. A comparison of recent bank interest rates on commercial loans in the United States, Canada, and selected Latin American countries, is shown below:

BANK INTEREST RATES ON COMMERCIAL LOANS

United States (New York City)	3%
Canada	4½%
Brazil	10%
Chile	11%
Colombia	9%
Peru	9%

It would be natural to expect these higher interest rates in Latin America to be reflected in higher average rates of return in industry there. Generally speaking, this is so.

Conditions portrayed by the above interest rate figures normally would be sufficient to insure a substantial flow of funds from the United States to Latin America, all other things being equal. Capital flows towards the most favorable rate of return, just as water seeks its own level. However, the amount of United States direct private investment flowing into Latin America for the four years ending in 1953, as previously shown, is far below the potential flow of investment capital between two such adjacent areas.

Investor Opinion

The survey entitled "Factors Limiting U. S. Investment Abroad, Part 2," released in August, 1954 by the Department of Commerce, contains probably the most searching examination of the views of American business on this subject ever published. The survey reported that after the factor of profitability, the considerations cited related to a whole series of problems arising out of the past, present and potential attitudes of governments, and classified these factors under the headings: inconvertibility; instability; attitude toward private enterprise and investment of foreign capital; and foreign government laws and regulations, including social laws and taxes. Of inconvertibility, the survey stated:

> "The predominant, and most frequent and persistent, problems encountered in foreign investment are those caused by foreign exchange difficulties abroad. These problems are getting equipment and supplies in; getting money out.

* * * * *

"The problem of foreign investment most frequently mentioned in the responses to all 20 major questions in this survey was that of convertibility of currencies.

* * * * *

"One interviewer reported '. . . they kept reiterating that the question of foreign investment is so tied up with restrictions on foreign exchange and the conversion of earnings into dollars that other impediments are of no consequence.' Another interviewer said, 'It was difficult to get them to discuss anything other than this subject.' "

The above conclusions were borne out by the findings of the recent report of the Capehart Mission to Latin America which states that "The most serious deterrent to private investment in Latin America would appear to be the restrictions on the remission of profits, royalties, interest, and the repatriation of capital."

In 1951, a technical study entitled "Obstacles to Direct Foreign Investment" was issued by the National Industrial Conference Board pursuant to a request of the President's Committee for Financing Foreign Trade. This report also bore out the conclusions that of the obstacles mentioned corresponding largely to difficulties specifically encountered by foreign capital, convertibility was the most serious obstacle and indicated that the much-talked-about fear of "nationalization" and and "expropriation" has been overrated. Of the replies given by firms actually doing business in Latin America, only 2% of the obstacles mentioned fell in this category. More than ten times as frequently mentioned is the obstacle related to the mobility of capital. This, of course, includes limitations and restrictions on the remittance of profits, as well as the possible return of the original capital investment.

The Need for Investor Confidence in Long-range Convertibility

International private capital is notoriously sensitive, fluid, and desirous of its freedom. When assured of its freedom to depart, it has no desire to do so, preferring to remain where it can earn a satisfactory return. Lacking such an assurance of mobility, however, it will not enter a country despite the attractiveness of earnings possibilities. And since a substantial increase in the flow of foreign private capital to Latin America is essential to the success of the objective of accelerating the growth of Latin America's national income, the provision of adequate assurances for its future mobility must be one of the most important single aspects of a constructive program.

Many investors feel that although convertibility exists today in certain Latin American countries, it may disappear tomorrow. What has to be established for the development of any substantial flow of fresh capital is *investor confidence in long range continued convertibility.* As the Eisenhower Report highlighted the need for stability and consistency in our trade policies toward Latin America, we consider monetary stability and consistency in monetary policies are the twin considerations uppermost in the minds of the investment community. Tax incentives and other measures designed to make foreign investment more attractive are highly desirable but a prudent American investor will not risk his dollars in ventures that may not bring a return in dollars, regardless of the attractiveness of return in local currency.

The Related Problem of Inflation

A problem related to that of convertibility is the prevention of inflation and the maintenance of high levels of economic activity with relative price stability. The ruinous effects of inflation have been felt almost constantly in some Latin American countries where it has destroyed confidence in currencies, encouraged flights abroad of local capital and led to speculative ventures in nonproductive enterprises. There have been efforts by some of the Latin American governments to control the situation by price, wage, investment and currency controls, but these attempts deal more with symptoms than with basic causes of inflation. To control inflation, governments must institute unpopular fiscal policies to insure that the supply of money and growth of money income does not outstrip production or the availability of services. Although many of the basic economic restraints required to control inflation primarily involve domestic actions, some of the Latin American governments have sought to fight inflation by direct licensing of imports and multiple exchange rates on imports and exports so that domestic prices will be brought more nearly in line with world prices. There have been many indications that the use of these devices has brought new difficulties more pressing than those the device was designed to remedy, including overwhelming administrative burdens and prices for imported goods at the consumer level even higher than they might be with a realistic import exchange rate.

Inflation, in addition, reduces the real value of accumulated savings and has an adverse effect on insurance and old age pension systems which are of such great social importance. This discouragement of savings and insurance company growth makes it extremely difficult to develop any market for long term capital.

IV—RECOMMENDATIONS

In the light of what has been said, the urgent need for closer and more productive cooperation among the nations of the Western Hemisphere becomes abundantly clear.

No aspect of our foreign policy deserves more immediate or more serious consideration. None has more profound implications for our own security and growth.

Latin America is our largest customer.

It is our largest supplier of vital raw materials.

It is our largest field of foreign investment.

It has more people than we have and more than twice our area and yet its all-weather road mileage is only 7 per cent of ours and its electric power capacity only 8 per cent.

Its greatest need is capital, but the net flow of new private capital from the United States in the 4 years ending 1953 averaged only $15 million a year, a fraction of what it ought to be.

It is our indispensable and irreplaceable ally.

It could be lost to Communism. It needs our help now to build the higher standards of living which are the surest safeguards against Communist penetration and subversion.

Clearly we cannot afford to sit and wait.

The recommendations which follow are motivated by a sense of pressing need to get on with a program of action calculated to forge increasingly stronger links among the nations of the Western Hemisphere.

In considering this need we find that the tools necessary to do the job are already at hand.

Government activities in the economic field affected by the recommendations of the Report by Dr. Milton S. Eisenhower are carried on in varying degree by every cabinet department and by independent agencies, such as the Export-Import Bank, the Foreign Operations Administration, and General Services Administration; international organizations, such as the International Bank for Reconstruction and Development, the International Monetary Fund, the Organization of American States; and specialized agencies of the United Nations, such as the Economic Commission for Latin America.

The functions of all these entities are so closely interdependent in relation to the objectives of the Eisenhower Report recommendations that no one or no group of them can reach full effectiveness without coordinating with the others. The Eisenhower Report recommendations, furthermore, are part of an integrated economic plan. They can best be realized through an integration of the duties and responsibilities required to carry out an economic development program for Latin America on an overall basis and on a country by country basis.

Thus, most of the legislative sanctions and executive functions required to carry out such a program now exist. Many of the functions described in the following recommendations are already being carried on in whole or in part. The missing elements are coordination, direction and drive.

The Board recognizes that the pattern of governmental activity in relation to Latin America is necessarily complex, involving many agencies with diversified functions ranging from diplomacy to agricultural research. It believes, however, that the effectiveness of these many activities in the aggregate depends in large measure on achieving the greatest possible degree of coordination, so that they will, as a whole, constitute a unified and cohesive program.

The Board therefore suggests that the President call upon his Advisory Committee on Government Organization to examine all United States Governmental activities relating to Latin America with a view to determining whether and by what means a greater degree of cohesion and coordination may be achieved.

The Board believes that an effective and dynamic program of action in the area of Inter-American economic relations should include authority to:

1. Assist individual countries in the development of an overall economic plan so that available local resources and assistance from the United States will be used to the best advantage of the economy of that country. It is our belief that economic development of some Latin American countries, particularly the smaller ones, is impeded as much by lack of economic and technical planning as by lack of financial resources. We view this function as the key to a successful program which must be executed with vigor and imagination. Its objective should be to mobilize available resources and talents into an effective plan of economic development.

2. Carry on the functions of the convertibility and expropriation insurance authorized by the

Mutual Security Act insofar as it relates to Latin America. The program has not been effective in that area. In the two years since it was made available to Latin America, only one country, Haiti, has signed a bilateral agreement and no guaranties have been issued. We believe, however, that the program could succeed if key administrative procedures are simplified so that the guaranty is quickly and easily available to investment meeting in the criteria of the Act, and if a special effort is made to convince Latin American countries of the merits of the program. Consideration should be given to the suggestions on administration contained in the accompanying "Analysis of Investment Guaranty Program" (Appendix B).

A great many of the Latin American countries have expressed a sincere desire to encourage the flow of private investment from United States sources. We recommend that the executive authority be instructed to institute a thorough investigation to determine the precise objections of the Latin American countries to participating in the Investment Guaranty Program, with the end in view of recommending measures to make the program work in Latin America.

3. Study ways and means of using tax incentives to encourage the flow of foreign private investment, including the feasibility of bilateral tax treaties incorporating reductions in tax rates.

In addition to such bilateral studies, we consider this to be a field in which constructive action can be taken unilaterally by the United States Congress. Such action should include further efforts to carry out the recommendations of the Randall Commission regarding taxes on income earned abroad, not only as regards corporate income but also income received by individuals and investment trusts.

4. Assist in the preparation for presentation to appropriate lending agencies of projects contributing to the economic development of the country which, under present conditions, cannot be financed by private institutions, but which would improve the investment climate for the flow of private capital.

5. Assist in the development of the most efficient use of local savings by providing technical advice in establishing local securities markets, industrial mortgage banks, agricultural land banks and other private institutions designed to channel local savings and proceeds from outside loans into productive enterprises. Inflationary policies have caused local savings in some countries to concentrate in non-productive channels, but another cause for poor utilization of local savings is lack of adequate modern financial institutions.

6. Provide technical advice for the development institutions of Latin American countries and for the establishment of such institutions in countries where they are needed and do not exist.

7. Encourage direct private investment by helping to obtain loans from private United States financial institutions for new ventures undertaken by either private United States or local capital, or combinations thereof. As an example, loans by private United States financial institutions to such new ventures could be guaranteed in whole or in part or guaranteed against certain risks such as availability of dollar exchange to meet interest and amortization charges. This authority already exists in the Export-Import Bank and has been used to a limited extent.

8. Study ways and means of eliminating existing trade barriers and developing greater export markets.

We consider that steady and consistent forward movement toward this goal is of fundamental importance in any program of inter-American cooperation. Policies already established must be implemented and applied with increasing vigor. The Reciprocal Trade Agreements Act should be extended for a sufficiently long period of time to lend stability to its application. The recommendations of the Randall Commission and the Eisenhower Report on these matters should be acted upon. The sporadic but recurring attempts to shut out from the United States market the products of the Latin American countries by quota or by tariff or excise tax increases should be discouraged and a firm national policy against such measures should be clearly enunciated.

9. Continue and expand the work of the Technical Cooperation program of the Foreign Operations Administration in Latin America, with increasing emphasis on projects which will promptly increase the standard of living of the poorest portion of the population of the countries affected. Its main initial activity should be in the fields of health, agriculture, and primary and vocational education.

The "productivity center" technique, so successful in Europe in making technical assistance available to private enterprise as well as to governments, together with the exchange of "productivity teams," should be adapted to the needs of this area.

10. Promote increased tourist travel to and from the United States and Latin America.

11. Promote the greater utilization of Latin American products by encouragement of trade and industrial fairs and conventions.

12. Promote and expand the exchange of students and teachers between the United States and Latin America, and encourage studies of the history, culture and economy of the American republics, in the schools of both the United States and Latin America.

13. Insure maximum consideration for Latin America in the national stockpiling program within the framework of our strategic requirements.

14. Provide for increased coordination of related United States activities in Latin America with the operations of the International Bank for Reconstruction and Development and the International Monetary Fund; and with the technical assistance and economic activities of the United Nations, the Organization of American States, and other international organizations working in the Americas.

15. Encourage the voluntary technical assistance projects being carried on by private foundations; by business corporations; and by educational and religious groups who are doing valuable work in the most backward areas of Latin America toward the improvement of agricultural, health and educational methods.

16. Assist the United States Information Service to emphasize to the people of Latin America the benefits of the free enterprise system.

It should be emphasized that the program outlined above can succeed only if carried out on the basis of clear mutual understandings with the respective Latin American countries that the responsibility to formulate and carry out a program of economic development necessarily rests with them, but that the United States stands willing and offers to assist by means within its competence.

In developing this report, we have looked to the experience and thinking of past and present international programs having more or less similar goals, including the European Payments Union, the Schuman Plan, and the Organization for European Economic Cooperation.

Latin America faces some of the same problems which led to the European Payments Union, the Schuman Plan, and other "integrating" devices in Europe, and in the long run, maximum, most efficient and durable economic development will surely involve greater integration of the national economies into which Latin America is now divided. However, we do not believe these devices in their present form can be applied to Latin America because they were designed to meet the special requirements of European economies which for many years have been closely integrated by the heavy flow of trade between them. Latin American countries, on the other hand, have looked across the seas for their trading partners, and trade between them almost always has been insignificant. In 1953, exports of Latin American countries to each other accounted for only 6 percent of their total export trade. In that same year, exports of EPU countries to each other (including the sterling area) amounted to 73 percent of their total export trade. This is the basic difference between Europe's problems of integration and Latin America's. Statistical analysis of this point appears in Tables XXVI and XXVII of Appendix A.

Although the same "integrating" devices used in Western Europe may not be successfully applied to Latin America, the total pattern of the hemisphere's economic life can be greatly strengthened by closer and more effective cooperation between the nations comprising the inter-American community. With this in mind, it is recommended that the United States urge the Organization of American States to take positive steps to:

1. Promote action on the part of the respective governments to stabilize currencies and remove exchange restrictions and other impediments to trade.

2. Foster multilateral inter-American trade and eliminate as far as possible barter transactions.

3. Develop proposals for projects which would benefit two or more countries, such as hydro-electric projects, railroads and irrigation dams.

4. Encourage the development and establishment of basic industries which could serve more than one Latin American country.

The recommendations we have made in this report are, we submit, basic and workable. They imply partnership in this hemisphere. They imply mutual growth, and faith, and a dedication to the common aims of the Americas.

Washington
September, 1954

APPENDIX 'A'–STATISTICAL SUMMARY

Importance of Latin America to the United States

The United States' largest foreign market and supplier.

TABLE I

United States Trade with Major Areas—1953

	Exports (1)		*Imports*	
	Percent of Total	*Amount (Millions)*	*Percent of Total*	*Amount (Millions)*
Latin America (2)	26.6%	$ 3,096	33.6%	$ 3,656
Canada	25.7	2,995	22.6	2,463
Europe	24.7	2,868	21.5	2,335
Asia	17.2	1,997	14.9	1,625
Africa	4.3	503	5.5	594
Oceania (Australia, New Zealand, etc.)	1.5	173	1.9	202
Total	100.0%	$11,632	100.0%	$10,875

(1) Excluding "Special Category" exports sold or transferred under U. S. aid programs of $4.1 billion.
(2) Includes all Latin American Republics and European dependencies.

SOURCE: U. S. Bureau of the Census.

United States export and import trade with Latin America in 1953 was larger than that with any other major area in the world.

TABLE II

Leading U.S. Exports to Latin American Republics—1953

	Amount (1) (millions)	*Percent of Total U. S. Exports of these goods*
Industrial Machinery	$420.4	27.4%
Chemicals & Related Products	283.1	35.4
Vegetable Food Products	266.0	18.8
Electrical Machinery	215.2	33.4
Textile Manufactures	183.5	28.7
Iron & Steel Mill Products	155.8	31.5
New Motor Trucks, Busses and Chassis	138.2	52.3
New Passenger Cars & Chassis	119.6	43.3
Fats, Milk, Meat and other edible Animal Products	116.6	46.6
Petroleum & Products	100.8	20.2

(1) Excluding "Special Category" exports.

SOURCE: Office of Research, Statistics and Reports, F.O.A.

TABLE III

Growth in United States Trade with Latin America

	General Imports of United States from Latin America		*Exports (Including Re-Exports of United States to Latin America) (1)*	
	Amount (2) (millions)	*% of Total U.S. Imports*	*Amount (2) (millions)*	*% of Total U.S. Exports*
1938	$ 485	24.8%	$ 564	18.2%
1939	549	23.7	633	19.9
1940	651	24.8	777	19.3
1941	1,086	32.5	1,035	20.1
1942	1,020	37.2	849	10.5
1943	1,418	41.9	956	7.4
1944	1,681	42.9	1,166	8.2
1945	1,718	41.4	1,370	14.0
1946	1,827	37.2	2,221	22.8
1947	2,252	39.3	4,069	28.2
1948	2,506	35.2	3,362	26.6
1949	2,443	36.9	2,805	24.3
1950	3,102	35.0	2,766	28.7
1951	3,548	32.4	3,772	28.0
1952	3,636	33.9	3,535	28.1
1953	3,656	33.6	3,096	26.6

(1) Excluding "Special Category" exports.
(2) Includes all Latin American Republics and European dependencies.

SOURCE: U.S. Bureau of the Census.

Since 1938 United States imports from Latin America have increased 7.5 times. Our exports to Latin America have increased 5.5 times.

TABLE IV

United States Exports to Latin American Republics Principal Categories (1)

(as a percent of total)

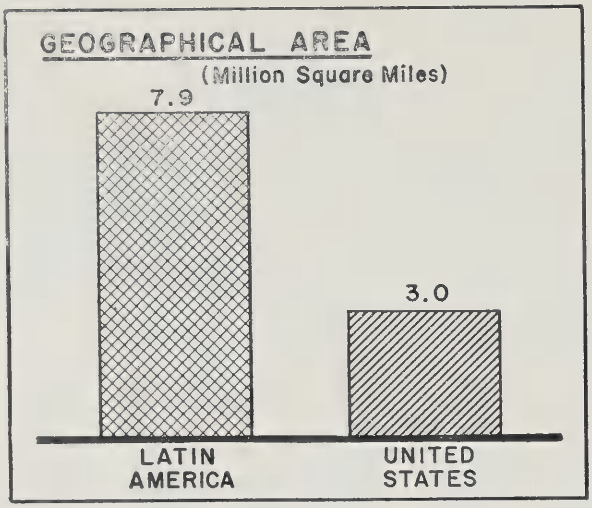
Commodity	*1953*
Machinery	26.2%
Automobile, parts & accessories	11.7
Chemicals & related products	9.7
Vegetable food products	9.1
Textiles	6.3
Iron & steel mill products	5.3
Fats, milk, meats & other edible animal products	4.0
All other, including total U.S. re-exports	27.7
Total	100.0%

(1) Excluding "Special Category" exports.

SOURCE: U.S. Department of Commerce.

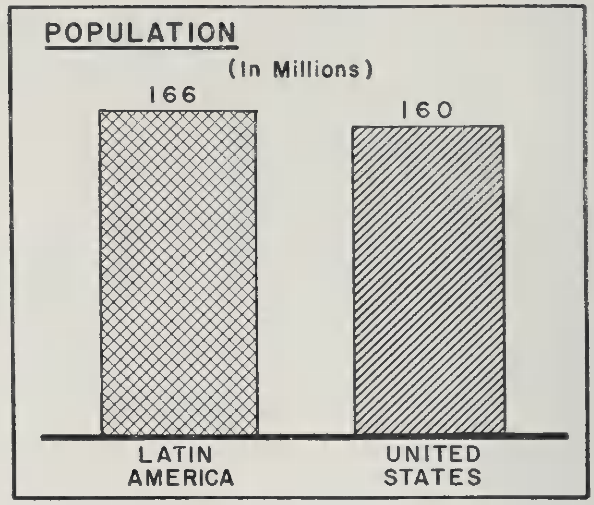
Latin America has a land area over two and one-half times larger than the United States. Its population is already larger than the United States and growing at a faster rate.

TABLE V



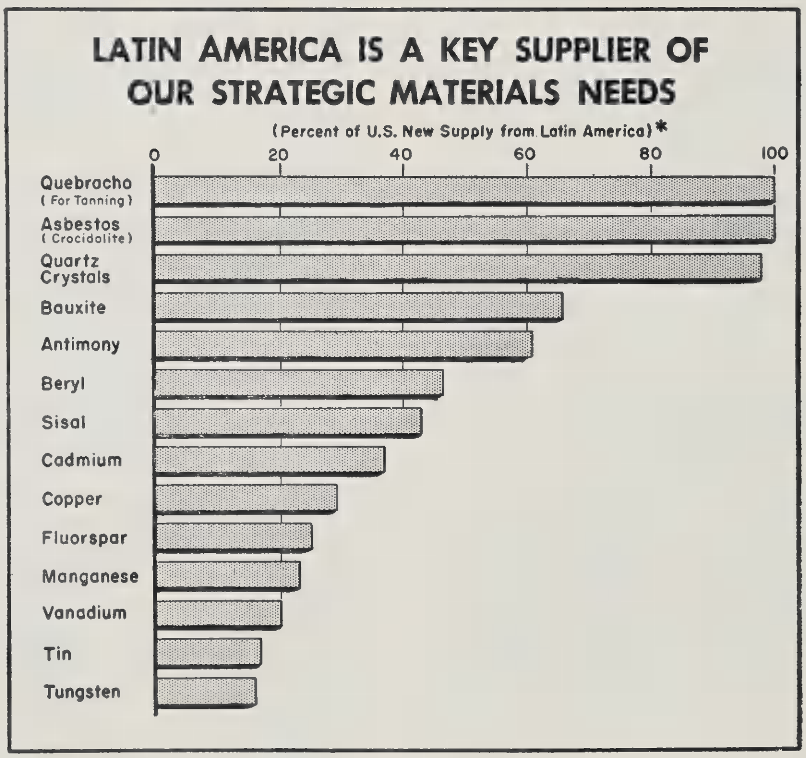
SOURCE: Office of Research, Statistics & Reports, FOA.

TABLE VI



SOURCE: Office of Research, Statistics & Reports, FOA.

TABLE VII



* Based on latest available data.
SOURCE: Office of Research, Statistics & Reports, FOA.

Almost one half of Latin America's exports went to the United States market in 1952 and 1953. The growing importance of the United States to Latin America is shown by the fact that in 1938 only 31.7% of Latin America's exports were sold in the United States market compared to almost 50% today.

TABLE VIII

Latin American Republics

	Exports by Destination				*Imports by Source*			
	1938	*1951*	*1952*	*1953*	*1938*	*1951*	*1952*	*1953*
United States	31.7%	44.2%	49.4%	47.7%	36.0%	50.7%	52.1%	49.6%
Europe (1)	39.0	29.5	28.5	26.8	36.8	25.0	24.1	25.1
Sterling Area	19.1	12.1	6.9	9.2	15.1	9.3	8.5	7.3
Latin America	6.1	9.0	8.7	9.2	7.7	9.9	9.5	11.6
Rest of World	3.1	2.7	3.3	4.0	3.2	2.3	1.5	3.0
Canada	1.0	2.5	3.2	3.1	1.2	2.8	4.3	3.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Excluding U.S.S.R. and satellites which are included under "Rest of World"
SOURCE: Monthly Bulletin of Statistics, United Nations.

Latin American exports to the United States consist mostly of primary commodities.

TABLE IX

Latin American Republics Exports to the United States
(by principal categories as a percent of total)

Commodity	*1953*
Coffee	40.1%
Foodstuffs, other than coffee	19.5
Metals (incl. ores & concentrates)	15.1
Petroleum & petroleum products	12.5
Textiles (principally fibers)	5.7
All others	7.1
Total	100.0%

SOURCE: U. S. Department of Commerce.

Need for Increased Agricultural Production in Latin America

There are almost four times as many people engaged in agriculture in Latin America as there are in the United States.

TABLE X

Agricultural Employment

	Millions of Persons		*Percent of Total Civilian Employment*	
	Latin America	*United States*	*Latin America*	*United States*
1945	29.8	10.0	60.0%	18.9%
1950	32.2	9.3	57.9%	15.5%
1953	33.9	8.6	58.1%	13.9%

SOURCE: Economic Survey of Latin America, 1953, United Nations; U.S. Bureau of Labor Statistics; U.S. Department of Agriculture.

Despite the fact that nearly sixty percent of Latin America's workers are engaged in agriculture, gross agricultural product accounts for only about one quarter of the total gross product.

TABLE XI

Gross Agricultural Product

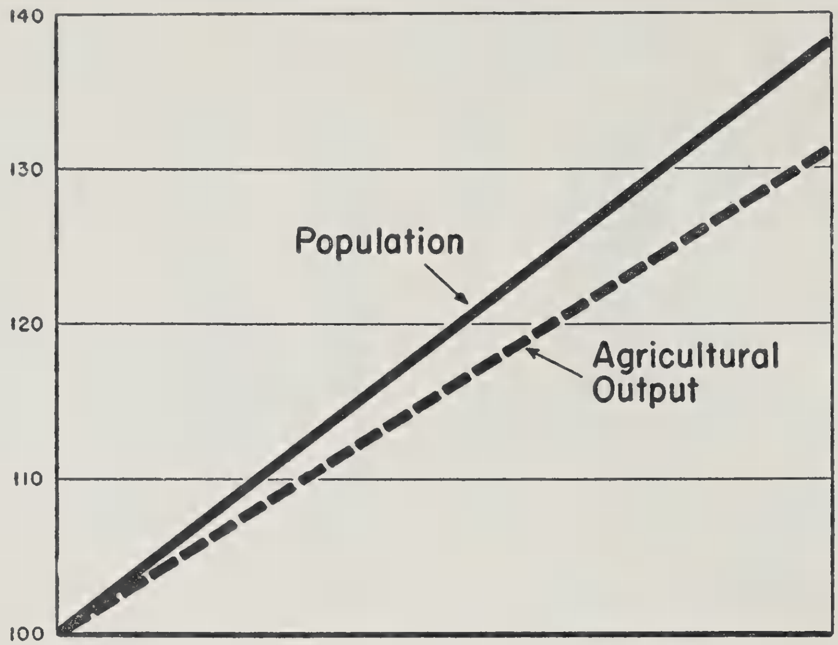
	Millions of Dollars at 1950 Prices		*Percent of Total Gross Product*	
	Latin America	*United States*	*Latin America*	*United States*
1945	$ 7,283	$21,696	26.6%	7.6%
1950	$ 9,904	$21,147	25.8%	7.5%
1953	$10,284	$19,462	24.7%	6.0%

SOURCE: Economic Survey of Latin America, 1953, United Nations; U.S. Department of Commerce.

TABLE XII

Population Growth and Agricultural Output in Latin America

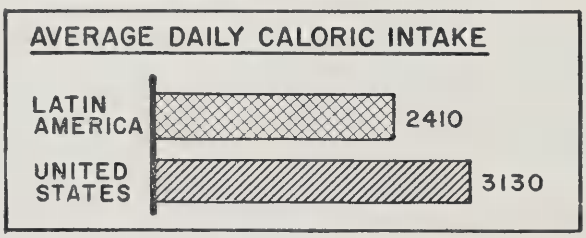
(Index Prewar = 100)



Prewar 1952/53

SOURCE: Office of Research, Statistics & Reports, FOA.

TABLE XIII



SOURCE: Office of Research, Statistics & Reports, FOA.

Need to Increase Industrial Output

In Latin America there are less than half as many industrial workers as there are in the United States. Industrial workers comprise only about 17% of the workers in Latin America compared to over 32% in the United States.

TABLE XIV

Employment in Industry and Building

	Millions of Persons		*Percent of Total Civilian Employment*	
	Latin America	*United States*	*Latin America*	*United States*
1945	7.4	16.4	14.9%	31.0%
1950	9.2	17.3	16.6%	28.9%
1953	9.6	19.9	16.5%	32.2%

(1) Includes employment in "Manufacturing" and "Contract Construction."

SOURCE: Economic Survey of Latin America, 1953, United Nations; U.S. Bureau of Labor Statistics.

Gross industrial and building product accounts for only about one-quarter of total gross product in Latin America compared to almost one-third in the United States.

TABLE XV

Gross Industrial and Building Product

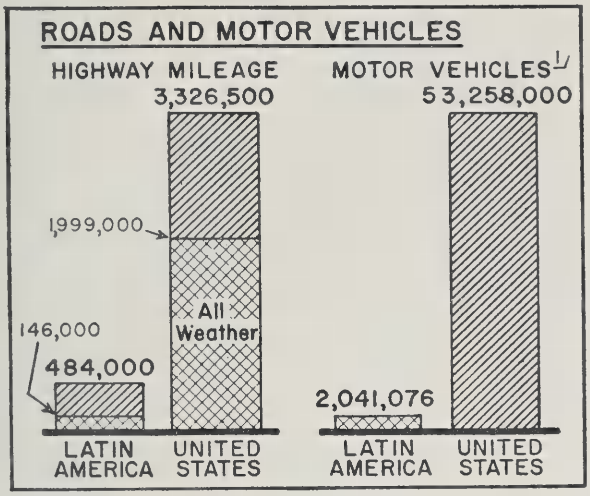
	Millions of Dollars Gross Product		*Percent of Total at 1950 Prices*	
	Latin America	*United States(1)*	*Latin America*	*United States*
1945	$ 7,007	$ 84,662	25.6%	29.7%
1950	$ 9,921	$ 95,311	25.9%	33.6%
1953	$10,639	$112,458	25.6%	34.4%

(1) Income originating in "Manufacturing" and "Contract Construction" plus allowance for depreciation, indirect taxes and other charges.

SOURCE: Economic Survey of Latin America, 1953, United Nations; U.S. Department of Commerce.

It is estimated that Latin America only has about 7.3% of the all weather roads, 3.8% of the motor vehicles and 8.2% of the installed electric power capacity of the United States.

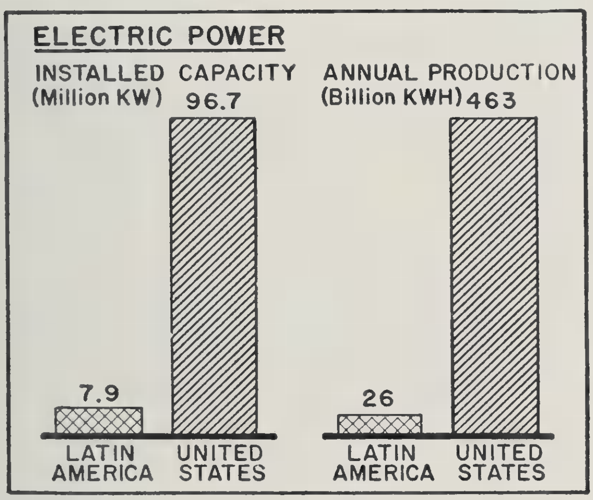
TABLE XVI



(1) Passenger cars, trucks, and buses; excludes motor cycles and tractors.

SOURCE: Office of Research, Statistics & Reports, FOA.

TABLE XVII



SOURCE: Office of Research, Statistics & Reports, FOA.

United States Direct Private Investment in Latin America

As previously shown in Section III of this report, of the total United States direct private investment abroad at the end of 1953 of $16.2 billion, $6 billion, or 37% was located in Latin America. Although a country by country breakdown of investments is not yet available for that year, Table XVIII shows the location by country of such investments for the years 1949 and 1952.

The growth and location of United States direct private investment in Latin America for the period 1949-1952 has been as follows:

TABLE XVIII

Value of U. S. Direct Private Investment in Latin America, by Country 1949 and 1952

County	*End of 1952 (millions)*	*End of 1949 (millions)*	*Increase/(Decrease) from 1949* Amount (millions)	*Percent*	*Rank*
Venezuela	$1,184	$1,036	$ 148	14.3%	10
Brazil	1,013	588	425	72.3	1
Cuba	686	619	67	10.8	13
Chile	623	518	105	20.3	8
Mexico	490	374	116	31.0	5
Argentina	393	329	64	19.5	9
Panama	383	337	46	13.6	11
Colombia	234	194	40	20.6	6
Peru	230	148	82	55.4	2
Dominican Republic	123	102	21	20.6	6
Guatemala	108	104	4	3.8	15
Honduras	81	60	21	35.0	4
Uruguay	71	51	20	39.2	3
Costa Rica	61	57	4	7.0	14
Ecuador	14	16	(2)	(12.5)	16
Other countries (1)	64	57	7	12.3	12
Total	$5,758	$4,590	$1,168	25.4%	

(1) Includes Bolivia, El Salvador, Haiti, Nicaragua and Paraguay.

SOURCE: U. S. Department of Commerce.

In the immediate post-war years, the predominant field for United States direct private investment in Latin America was the extractive industries—petroleum mining and smelting. However, of the $1,168 million increase from the end of 1949 to the end of 1952, 67% is accounted for by the non-extractive industries as shown below:

TABLE XIX

United States Direct Private Investment in Latin America

Net Increase in Value by Industry Groups 1949-1952

		Net Increase in Value 1949-1952 (millions)	
Non-Extractive Industries			
Manufacturing	$499		
Trade	132		
Agriculture	51		
Miscellaneous	60		
Public Utilities	41	$ 783	67%
Extractive Industries			
Mining and Smelting	$275		
Petroleum	110	$ 385	33%
		$1.168	100%

SOURCE: U.S. Department of Commerce.

TABLE XX

United States Investment Position in Latin America
(millions of dollars)

	1949		1951		1953	
Private Investments						
Long-Term						
Direct	$4,590		$5,176		$6,023	
Foreign dollar bond	152		163		131	
Securities payable in local currencies	47		33		30	
Other long-term	212	$5,001	219	$5,591	199	$6,383
Short-Term						
Deposits	$ 43		$ 50		$ 52	
Other	512	555	642	692	622	674
		$5,556		$6,283		$7,057
United States Government Credits						
Long-Term	$ 398		$ 519		$ 930	
Short-Term	43	441	5	524	3	933
Total		$5,997		$6,807		$7,990

SOURCE: U.S. Department of Commerce.

United States Balance of Payments with Latin America Since 1947

For the seven post-war years 1947-1953 and the first quarter of 1954, the balance of payments situation between the United States and Latin America may be summarized as follows:

TABLE XXI

	1947 to 1953	*First Quarter 1953*	*1954*
Latin America's Use Of Dollars			
Latin America purchased (sold) more goods and services in the U.S. than it supplied the U.S.	$1,877	$(276)	$(226)
In addition, Latin America remitted income to the U.S. in excess of income received:			
On U.S. Direct Private Investment	3,660	149	141
On other U.S. Investment	137	5	7
and remitted capital other than U.S. Capital in the net amount of	948	77	101
Use of Dollars	$6,622	$(45)	$ 23
Latin America's Source Of Dollars			
Latin America received private and government grants and donations, including military transfers under aid programs in the net amount of	$ 501	$ 19	$ 24
In addition, Latin America financed its dollar requirements through an increase in U.S. Capital:			
U.S. Direct Private Investment	1,697	20	32
Other U.S. Capital	681	6	(41)
And sold (purchased) gold in the net amount of	509	(95)	10
The above source of dollars amounted to	$3,388	$(50)	$25
In addition there was accounted for by errors and omissions and transfer of funds between foreign areas	$3,234	$ 5	$(2)
Source of dollars	$6,622	$(45)	$ 23

TABLE XXII

United States Balance of Payments With Latin America
(in millions)

Item	1947	1948	1949	1950	1951	1952	1953	1st Quarter 1953	1st Quarter 1954
A. Goods and Services									
Exports	$3,859	$3,162	$2,712	$2,718	$3,746	$3,474	$3,049	$721	$710
Imports	2,299	2,626	2,501	3,091	3,510	3,569	3,570	983	934
Trade Balance	1,560	536	211	—373	236	—95	—521	—262	—224
Transportation	134	95	66	61	112	93	66	14	18
Travel	—68	—61	—62	—68	—103	—97	—101	—34	—31
Income on Investments	429	506	396	541	671	622	632	154	148
Military Transfers under Aid Program	—	—	—	—	62	56	36	5	11
Misc. Services	12	8	44	54	31	57	50	6	11
Net Services	507	548	444	588	773	731	683	145	157
Balance on Goods and Services	2,067	1,084	655	215	1,009	636	162	—117	—67
B. Donations (Grants and Other Unilateral Transfers									
Private	—34	—38	—37	—33	—45	—51	—54	—12	—12
Government	—47	—22	—35	—25	—84	—84	—66	—12	—23
Total Donations	—81	—60	—72	—58	—129	—135	—120	—24	—35
C. Capital									
U.S. Capital, net, Outflow (—)									
Total	—803	—286	—244	—10	—369	—483	—183	—26	9
Private, net, total	—627	—340	—204	—10	—275	—418	162	—15	21
Direct Investments	—457	—333	—332	—40	—165	—277	—93	—20	—32
Portfolio	55	49	18	27	29	34	33	6	10
Short-term	—225	—56	110	3	—139	—175	222	—1	43
Government, net, total	—176	54	—40	—	—94	—65	—345	—11	—12
Foreign Capital, net, Outflow (—),									
Total	190	104	219	183	—73	201	124	77	101
Long-term	—4	12	4	30	9	12	21	—1	—3
Short-term liabilities to foreign banks and official institutions	194	92	215	153	—160	64	71	78	80
Other short-term	—	—	—	—	78	125	32	—	24
D. Gold									
Net sales or purchases (—)	—809	—178	131	162	124	—63	124	95	—10
E. Errors and Omissions and transfer of funds between foreign areas	—564	—664	—689	—492	—562	—156	—107	—5	2

SOURCE: U.S. Department of Commerce.

Rate of Savings in Latin America and the United States

In Latin America the rate of savings has been at relatively high levels.

TABLE XXIII

Latin America Consumption and Savings
(millions of dollars at 1950 prices)

	Goods and Services Available (1)			*Savings as % of*
	Total	*Consumption*	*Savings*	*Total*
1946	$29,511	$25,221	$4,290	14.5%
1947	33,641	28,505	5,136	15.3
1948	33,874	27,748	6,126	18.1
1949	35,343	29,065	6,278	17.8
1950	37,063	30,809	6,254	16.9
1951	40,109	33,705	6,404	16.0
1952	40,640	34,186	6,454	15.9
1953	40,336	34,382	5,954	14.8
Weighted Annual Average				16.1%

(1) "Gross product" plus excess of imports over exports or minus excess of exports over imports.

SOURCE: Economic Survey of Latin America, 1951/52 and 1953, United Nations.

The average rate of savings in Latin America for the period 1946-1953 of 16.1% has been about 12% higher than the rate of 14.4% for the same period in the United States.

TABLE XXIV

United States Consumption and Savings
(millions of dollars at 1950 prices)

	Goods and Services Available (1)			*Savings as % of*
	Total	*Consumption*	*Savings (2)*	*Total*
1946	$247,422	$214,659	$32,763	13.2%
1947	236,754	210,900	25,854	10.9
1948	249,486	212,109	37,377	15.0
1949	252,427	215,837	36,590	14.5
1950	281,458	240,768	40,690	14.5
1951	297,721	251,741	45,980	15.4
1952	307,561	259,767	47,794	15.5
1953	322,173	272,635	49,538	15.4
Weighted Annual Average				14.4%

(1) "Gross product" plus excess of imports of goods and services over exports or minus excess of exports of goods and services over imports.

(2) Gross private savings in 1950 prices.

SOURCE: U.S. Department of Commerce.

Obstacles to Capital Flow

This subject has been discussed in Part III of this report. If the present trend pointing towards a contraction of the flow of private United States capital to Latin America is to be reversed, it is most important to consider the opinion of investors themselves or that of firms actually engaged in foreign business of the obstacles to doing business abroad.

A technical study "Obstacles to Direct Foreign Investment" published in 1951 by the Industrial Conference Board classifies the answers received from firms engaged in business in Latin America on the basis of the frequency with which the obstacles were mentioned. Excluding replies which indicated that no serious problems were encountered, the results are shown in Table XXV.

TABLE XXV

Replies to Qutstionnaire Concerning Obstacles to Direct Foreign Investment

Obstacles Corresponding Largely to Difficulties of Doing Business and Common to Domestic and Foreign Capital	*Percent Frequency with which Individual Obstacles Were Mentioned*	
Financial: Export and Import quotas	15.8%	25.7%
Multiple Exchange Rates	8.0	
Undeveloped banking system and credit facilities	1.9	
Facilities: Lack of adequate roads, railroads, harbors and storage facilities	7.0	21.5%
Inadequate power facilities	4.5	
Lack of health and sanitary facilities	2.2	
Lack of trained native personnel	7.8	
Expenses: Burden of social security legislation	10.3	10.3%
Political: Instability of government	3.5	3.5%
Sub-Total	61.0%	
Obstacles Corresponding Largely to Difficulties Specifically Encountered by Foreign Capital		
Convertibility:		
Limitations on remittance of profits	11.8	21.1%
Control of capital movements	9.0	
Requirement for reinvestment of earnings	0.3	
Discrimination: Special taxation of foreign enterprises	2.7	7.4%
Discriminatory enforcement of tax laws	1.5	
Unequal treatment under law, etc.	0.6	
Restriction of investment to certain fields	1.1	
Required local participation	0.4	
Inability to deal with responsible government officials	1.1	
Personnel: Foreign restrictions on personnel from home country	4.7	8.5%
Inadequacy of housing, recreational and shopping facilities for employees	2.7	
Inability to recruit personnel in U. S.	1.1	
Expropriation:		
Nationalization and expropriation	2.0	2.0%
Sub-Total	39.0%	
Total	100.0%	

SOURCE: The Economic Almanac, 1953/1954, National Industrial Conference Board.

We have arranged the various obstacles mentioned in the preceding table in rough groupings to illustrate more clearly the nature of the problems encountered. It is interesting to note that, in terms of frequency of mention, some 61% of the items correspond to problems which in the main would be encountered about equally by local as well as foreign firms. Such obstacles do not relate to discrimination, nor do they affect security of fluidity of capital, but rather relate to the difficulties or expense of doing business.

None of this group of obstacles, shortages in facilities for transportation, power, health, availability of trained labor, the necessity of learning the intricacies of export/import controls, etc., are now in the history of migration of capital. In the past they have been among the normal expectations of entrepreneurs whenever they moved capital into new areas, to develop new economic frontiers. This type of difficulty has never proven more than a temporary obstacle to migration of capital in search of higher yields, and should not now in the case of Latin America.

Granted that these difficulties do constitute a temporary obstacle, or rather a brake on the speed with which Latin America can absorb an influx of new capital, a continuing program of soundly conceived government loans and technical assistance, should go a long way towards eliminating at least an important portion of the obstacles listed. Such a program should also have an important effect in moderating the impact of the financial obstacles mentioned of export/import controls, multiple exchange rates, and undeveloped banking systems—which made up 25.7% of the total obstacles mentioned—if appropriate steps are taken by the local Latin American governments to carry out such a program on sound financial lines without inflation.

Aside from the foregoing obstacles, which we can assume will be gradually either eliminated or greatly reduced, there remain the following:

Items affecting mobility of capital	21.1%
Discriminating against foreign capital	7.4
Difficulties in connection with U. S. personnel	8.5
Nationalization and expropriation	2.0
	39.0%

As pointed out previously in this report, problems relating to mobility of capital—limitation on remittances of profits as well as the possible return of capital itself—show us as over ten times as important as the fear of nationalization or expropriation.

Inter-Latin American Trade and Its Relation to the Possible Application of Mechanisms Such as E.P.U.

Latin America's geography and the nature of the economies of the various countries are so dissimilar from the situation in Europe as to render it doubtful that such measures are directly applicable. Unlike the complementary economies of Western Europe, the Latin American countries do not and, to a great extent, cannot trade heavily with one another.

TABLE XXVI

Exports of European Payments Union Area Countries As Percentage of Total EPU Area

	1937	*1950*	*1951*	*1952*	*1953*
EPU Area(1)	n.a.	73%	73%	72%	73%
Rest of World	n.a.	12	11	13	13
U. S. & Canada	n.a.	10	11	10	10
Latin America	n.a.	5	5	5	4
		100%	100%	100%	100%

Exports of Latin American Countries as Percentages of Total Latin American Export Trade

	1937	*1950*	*1951*	*1952*	*1953*
U. S. & Canada	46%	63%	57%	62%	62%
EPU Area(1)	43	26	34	25	27
Latin America	4	7	8	8	6
Rest of World	7	4	1	5	5
	100%	100%	100%	100%	100%

(1) Includes Continental EPU countries and dependencies, United Kingdom and dependencies, and other sterling countries.

SOURCE: International Financial Statistics, I.M.F.

TABLE XXVII

Inter-Latin American Trade as Percentage of Total Latin American Trade

	EXPORTS					IMPORTS				
	1937	*1950*	*1951*	*1952*	*1953*	*1937*	*1950*	*1951*	*1952*	*1953*
Paraguay	21%	46%	35%	42%	47%	44%	48%	40%	31%	33%
Peru	15	32	23	31	n.a.	11	8	8	7	n.a.
Argentina	8	13	16	15	19	9	15	13	19	17
Chile	4	17	15	15	18	16	22	18	21	20
Nicaragua	4	6	13	14	12	7	5	7	7	7
Honduras	1	25	19	11	n.a.	4	12	9	8	n.a.
Ecuador	7	21	19	9	10	6	3	5	6	9
Venezuela	1	3	6	8	9	1	3	2	1	2
Brazil	7	8	9	9	n.a.	16	14	11	9	n.a.
Uruguay	7	3	6	15	6	11	20	18	25	28
Costa Rica	3	6	6	8	5	6	5	4	4	4
El Salvador	3	4	6	3	5	6	11	12	11	13
Cuba	1	2	4	3	4	3	3	2	3	3
Panama	–(1)	9	14	10	4	2	13	7	5	6
Mexico	2	5	5	3	4	2	1	1	1	1
Bolivia	3	3	2	3	3	31	36	32	29	35
Guatemala	1	1	1	2	2	4	10	7	9	7
Haiti	–(1)	1	2	1	2	–(1)	2	2	2	1
Colombia	1	1	1	1	1	3	5	5	4	5
Dominican Republic	1	1	1	–(1)	1	1	2	2	2	2
Total for Latin American Republics	4	7	8	8	6	9	9	8	7	10

(1) Less than .5%.

SOURCE: International Financial Statistics, I.M.F.

APPENDIX 'B'—ANALYSIS OF INVESTMENT GUARANTY PROGRAM

The Investment Guaranty Program provisions are part of Section 414 of the Mutual Security Act of 1954. In addition to authority to insure against non-convertibility and expropriation, the Section authorizes and directs the Administration to find and draw attention of private enterprises to opportunities for investment and development in other free nations and to accelerate a program of negotiating treaties for commerce and trade, including tax treaties which shall include provisions to encourage and facilitate the flow of private investment to nations participating in programs under the Act.

Purpose

The general purpose provision, entitled "Encouragement of Free Enterprise and Private Participation", states "The Congress recognizes the vital role of free enterprise in achieving rising levels of production and standards of living essential to the economic progress and defensive strength of the free world. Accordingly, it is declared to be the policy of the United States to encourage the efforts of other free nations to increase the flow of international trade, to foster private initiative and competition to discourage monopolistic practices, to improve the technical efficiency of their industry, agriculture and commerce, and to strengthen free labor unions; and to encourage the contribution of United States enterprise toward the economic strength of other free nations, through private trade and investment abroad, private participation in the programs carried out under this Act (including the use of private trade channels to the maximum extent practicable in carrying out such programs), and exchange of ideas and technical information on the matters covered by this Section". (Section 414 (a)).

Results to Date

This language leaves no doubt that Congress seeks a vigorous encouragement of U.S. private investment abroad as a major implement of foreign policy. However, the Investment Guaranty Program has not contributed significantly to this objective to date. Only $47 million of guaranties have so far been issued. The program has been available to Latin America for two years but only one country in the area, Haiti, has entered into the necessary agreement and, although the agreement with Haiti was negotiated more than a year ago, no investment has been guaranteed.

To date, guaranties have been issued in the following countries: Denmark, France, Germany, Italy, The Netherlands, Turkey, and the United Kingdom. In addition, there are pending applications in: Belgium, China, Greece, Israel, the Philippines, and Spain.

The character of the countries involved indicates that the Investment Guaranty Program has probably not been a critical factor in encouraging the investments. Most of the countries involved are highly industrialized and have been objects of United States investment for many years without government guaranty of convertibility and expropriation risks. However, pending applications in some of the countries which have recently joined the program may better test its usefulness.

The list of the companies who have applied for guaranties contains a large proportion of companies with substantial existing foreign investments and the greater part of the guaranties issued cover expansion of existing facilities rather than new enterprises. These investments are the type which continue to flow, notwithstanding apparent political risks, because they are necessary to protect or maintain the competitive position of existing investments. In other words, it is reasonable to assume that a great proportion of the applications for investment were prompted by prudence but the investments would have been made even if the guaranty had not been available.

The recently released Department of Commerce survey, "Factors Limiting U.S. Investment Abroad, Part 2", summarizes business opinion on the guaranty program as generally believing that the guaranty program has an encouraging effect on foreign investment, but points out, as we have above, that the investors who indicated that such guaranties might influence their company to make investments, at the same time had for the most part concluded or were trying to conclude investments without benefit of guaranties.

Analysis of Program and Specific Recommendations

The statutory provisions authorizing convertibility and expropriation are written in simple straightforward terms. The President is author-

ized, until June 30, 1957, to make guaranties of approved investments in any nation with which the United States has agreed to institute the guaranty program. The guaranty may provide for:

Transfer into United States dollars of other currencies received as earnings or profits on the investment, or as compensation for its sales; Compensation in United States dollars for expropriation.

When any payment is made under a guaranty, the inconvertible currency or expropriated assets becomes the property of the United States Government.

The guaranty may not exceed the amount of dollars invested plus earnings or profits on the investment to the extent specified by the guaranty. The time limit on the guaranty may not exceed twenty years.

The Act expressly provides that "the guaranty program authorized by this paragraph shall be used to the maximum practicable extent and shall be administered under broad criteria so as to facilitate and increase the participation of private enterprise in achieving any of the purposes of this Act; . . . " The purposes of the Act are sufficiently broad to cover most economically justified investment possibilities.

The President is authorized to issue guaranties up to a total of $200,000,000.

The Program is administered by the F.O.A. but guaranty contracts are executed by the Export-Import Bank. The basic inter-governmental agreement between the U.S. and the host country is negotiated by the F.O.A. and State Department.

The Advantages of Simplification

Unfortunately, the broad standard of the legislation, that investments must further the purposes of the Act, has not been reduced to clear guide posts which would enable F.O.A's guaranty staff to concentrate on the investigation of essentials.

The Department of Commerce survey reported that a substantial number of companies were of the view that:

"The guaranty insurance program requires too much time and effort and information, especially for small companies, to be worthwhile; it takes too long to obtain—5 to 9 months were mentioned specifically—particularly for companies which are in a competitive position where they have to move quickly or lose out; it has to be applied for before negotiations with foreign firms are concluded; it is administered with a greater concern for foreign countries than for the applicant U.S. concern."

Thus, one company stated, "We found it too complicated and involved for the small risk we are taking—too much detail for small undertakings."

For example, financial information must include certified income statements and year-end balance sheets for each of the past three years. This could discourage companies that consider their earnings confidential. It also could be taken to mean that only companies with strong financial positions and good earnings records will be eligible. In a great many cases, the fact that the foreign investment is seriously intended should prevail over any doubts as to the domestic financial standing of the investor.

The applicant is also required to describe all affiliations or continuing business relationships between itself and the foreign concern in which the investment is to be made, all other existing investments in the country of investment, the names of any other principal participants, the nature of their business and the extent and nature of their investment. This is information which many companies would be reluctant to disclose for good business reasons. Its relevance to the merits of the investment under the Act seems very questionable.

The applicant also must show how the investment will further the objectives of the Mutual Security Act. This must be determined to comply with the approval criteria of the Acts. However, most investors think only in terms of whether the operation will be profitable to them. This is particularly true of small investors, with limited time and means to justify their investment in terms of United States Government foreign policy. In fact, many investors might think their investment has no bearing on the Mutual Security Act, although in fact it might have an importance. The governments concerned know more about this subject than the investor. To ask the investor to answer a question so far outside his usual experience is to discourage use of the program.

In all, the present guaranty application has twenty-two items. Prudent administration may require that most or all of the information be available to both governments before the guaranty becomes effective. On the other hand, the complexity of the procedure and the amount of information required has been one of the serious handicaps to the program.

The Foreign Operations Administration is well aware of this difficulty and presented to the House Foreign Affairs Committee in the hear-

ings on the 1954 Mutual Security Act, a well considered and thorough evaluation and proposed revision of the procedures. We suggest, however, that the procedures can be even further simplified and still comply with the letter and intent of the statute.

The risk of approving an investment which might not comply with everyone's belief of what constitutes an eligible investment should be balanced against the apparent certainty that the program will continue to bog down unless the procedure is drastically simplified. That simplification possibly may be effected by "shifting the burden of proof" from the applicant to the government so that the government must show a particular investment does not satisfy the criteria of the Act. Consideration should be given to a form of application which requires only the barest description of the applicant, the form and amount of investment which he intends to make and the type and approximate amount of products to be produced as a result of the investment.

The present procedure seeks to cover every type of investment in every country. If, with respect to a particular country, the policy of the United States or the policy of the host country requires information in addition to the bare essentials, this information could be sought by specific inquiry.

Limitation on Amount Guaranteed

The statutory limitation on the amount of the guaranty is the amount of dollar investment plus earnings during the twenty-year term. In administration, the maximum amount of the guaranty is limited to 200% of the investment. Profits taken out through channels other than the guaranty do not, however, reduce the amount of the guaranty. The reason for the 200% ceiling is to provide some formula by which the exact maximum dollar liability of the Government can be determined in order to stay within the $200 million overall limit provided by the statute.

This 200% ceiling, however, has the psychological effect of appearing to limit profits, which is highly disconcerting to a program seeking to encourage private investment in areas of the world where commercial risks are greatest. Under a twenty-year guaranty, assuming amortization of the investment over twenty years, the limitation could be taken to mean that the return on capital should be not more than 5% per year. In fact, at the levels of cumulative earnings with accelerated depreciation which are normally realized in a United States chemical investment, the guaranty might be expected to cover only about 1/6 of total assets, retained earnings, and dividends over twenty years.

The publication of such a limit can mislead not only applicants but, of even more significance, the government of the host country, into the belief that it represents our Government's belief of a reasonable return on capital. It is recommended, therefore, that the 200% ceiling be eliminated and investors be permitted to insure up to such amount as they deem advisable subject to the right of the administrative agency to question any amount which bears no reasonable relationship to the cost of the investment.

Cost of the Guaranty

The cost of the guaranty is substantial. In fact, the Department of Commerce survey referred to above states that the cost is "prohibitive" in the view of many companies. Since the beginning of operations, the F.O.A. has collected $1 million, without paying out any money on claims, for guaranties of approximately $47 million. The percentage of fees collected to amounts guaranteed appears very high and although the fees are being substantially reduced, we believe that still further reductions should be considered. The theory on which the fees are determined was not one of establishing a self-supporting program, since it is impossible to evaluate the risk being insured against. It has been explained that the level of fees was set with the view of confining the use of guaranties to situations where they are needed. If an investment meets the criteria of the Act, the administration should be anxious to encourage it by offering the guaranty and should not apply an undiscriminating brake, in the form of a fee which is just as apt to discourage the much wanted type of investment as the least wanted.

Lack of Acceptance by Latin American Countries

Although Latin American governments have been informed officially that the program exists, their initial responses were not favorable and little or no effort has been made to bring the program to the negotiating stage. It has been felt that it would be unwise for the U.S. to urge these countries to accept the program because to do so might give rise to the complaint that we were interfering in their affairs. It is believed that one of the principal reasons for the indifferent initial reaction to the program by Latin American countries is the requirement in the bilateral agreement to the effect that claims to which the U.S. Government might become subrogated under the program would be handled through diplomatic channels rather than through the courts. Latin American governments are particularly sensitive, by reason of memories of past foreign interventions, to proposals which in any way reflect upon their sovereign rights

to exercise supervision and control over the activities of foreign private capital in their territories.

Advantages of a Positive Approach

The reasons in favor of a positive approach appear to us to be compelling. In the first place, the statute requires that the administration should make every effort to encourage private investment, and one of the methods by which Congress believes it can be encouraged is by the guaranty program.

In the second place, it does not seem an impossible task to convince the Latin American governments of the need for some understanding in advance as to procedures for disposing of currency and claims which the United States may of necessity acquire as an insurer.

In the third place, the statute is extremely flexible on the terms of the agreement between the United States and the proposed host country and active negotiations should reveal solutions and permit the writing of an agreement tailored to the particular country and its circumstances.

In the fourth place, the initial adverse reaction from Latin American countries is probably based on opposition to the expropriation guaranty more than the convertibility guaranty. The elimination of such guaranty would not, in our judgment, have a material effect on the results of the program in most Latin American countries. We believe that the risk of expropriation when properly evaluated is not nearly the deterrent represented by risk of non-convertibility.

In view of the fact that a great many of the Latin American countries have expressed a sincere desire to encourage the flow of private investment from United States sources, we recommend that an exhaustive investigation be immediately instituted to determine their precise objections to participating in the Investment Guaranty Program, with the end in view of determining what measures need be taken to make the program work in Latin America.

Another objection has been that instead of encouraging foreign countries to create a healthy climate for foreign investment, the program might stimulate an attitude on the part of the host government that it can do as it pleases and the United States will foot the bill. Whether this attitude will result depends in large part on the manner in which the provisions are administered. If they are offered as simply more "pie in the sky", the program would deserve that result. If they are offered as an integral part of an overall plan to achieve a program of economic development in the host country, agreed upon in broad outline by both governments, and in which the host country agrees to observe certain practices on its part deemed essential to the success of the overall program, then we consider that this argument loses its force. The Eisenhower Report lists the requisites to good relations among nations; understanding, mutual respect, equality, mutual security and adherence to mutual goals. If these concepts control the negotiations and if the entire problem is considered and dealt with as such, we are entirely justified in believing that the host country will keep its end of the bargain.